

The Economic Implications of Donald Trump's and Kamala Harris' Economic Policies on Latin America

We analyze the potential impact on Latin America of the economic policies likely to be pursued by the two US presidential candidates, Donald Trump and Kamala Harris. The platforms remain vague but enough can be garnered from the candidates' web pages and public commentaries to draw an outline of each candidate's policy stance.

Tulio P. Vera, CEO and President, Global Americans



International Economic and Foreign Policy: Key Policies

1 Trade Policies

- The scope for new free trade agreements (FTA) is absent from today's economic policy discussions.
- Both Trump and Harris support protectionist measures, with negative implications for the region.
- Trump has been much more vocal on tariffs, as these represent the corner stone of his economic platform.
- Trump's tariff policies are likely to have detrimental implications for existing FTAs.
- Effect on LatAm: Increased trade barriers would harm LatAm exports to the US, slowing economic growth and increasing unemployment in export-oriented sectors. They would undermine existing FTA's such as USMCA. Sectors such as autos, agriculture, textiles would be especially hurt.

2 Immigration Policies

- Enactment of Trump's plan for mass deportations would lead to stagflationary pressures in the U.S.
- The implementation of a program of deportation of possibly millions of undocumented migrants would pose monumental legal and logistical challenges.
- Effect on LatAm: Mass deportations would be disruptive for the LatAm economies, especially Mexico, Central America and the Caribbean. They would negatively impact remittances sent from the US to LatAm, a major driver for some economies, and disrupt the social fabric of communities with strong links to the US, potentially spur greater regional instability.

3 Currency Policy

- Trump has said he favors a weaker dollar, potentially reversing the strong-dollar policy which for decades has been a feature of U.S. economic policy. While short of interfering with the independence of the Federal Reserve, it is difficult to see how his administration would engine.
- Harris has outlined no clear policy on the U.S. dollar, but her stated policies seem to favor a strong dollar.
- Effect on LatAm: Weaker dollar helps with inflation and debt service but reduces the value of exports. A stronger dollar would make debt service more onerous yet improve the outlook for commodity prices. In practice, any U.S. administration would have a limited influence on currency markets.

Domestic Economic Policies and Their External Implications

Implications

1 Fiscal and Tax Policies

- Both Trump and Harris are expected to maintain relatively expansionary fiscal policies, although Harris's policies are likely to be less aggressive than Trump's.
- Much will depend on the composition of Congress.
- The biggest item on the horizon is the extension of the 2017 tax cuts.
- Effect on LatAm: Initially, loose U.S. fiscal policy would benefit the region via higher growth. Later on, the offset of tighter U.S. monetary policy (to control inflation) and higher interest rates would negatively impact LatAm growth and financing. Nevertheless, the impact would probably not be large.

2 Price Controls

- Harris's economic platform includes selective price controls on "price gougers."
- If enacted, this policy would lead to market distortions and stifle business confidence.
- Effect on LatAm: Price controls in the US could lead to reduced demand for LatAm exports, but the overall impact would likely be minimal.

3 Industrial Policy

- Both Trump and Harris are expected to continue pursuing industrial policies that prioritize U.S. economic self-sufficiency.
- Trump's focus on fossil fuels contrasts with Harris's support for green energy, reflecting the diverging views on climate and energy policy.
- Effect on LatAm: Harris's green focus increases LatAm opportunities in renewable energy markets, particularly for countries such as Brazil and Chile. Conversely, Trump's emphasis on fossil fuels would benefit LatAm oil exporters such as Colombia and Venezuela.

Conclusion

1

Trade Tariffs and Immigration Policy

Trade tariffs and harsh measures on immigration are the policy areas that may have the biggest negative influence on the LatAm economies, especially if plans for mass deportations are enacted. Dollar policy is unlikely to be very impactful.

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Fiscal Policy and other Domestic Policies

Ongoing loose fiscal policy, tax, industrial and other policies, as well as price controls, may lead to reduced growth, higher inflation, and increased economic volatility across the region, but are likely to have a more muted impact.

3

Overall Impact

At this stage, neither candidate's platform presents an auspicious economic agenda. A Trump administration would likely increase overall economic and market risks via protectionism and disregard for fiscal prudence. Harris' distrust of market mechanisms, corporate tax increase proposals and her seemingly low concern for the need to rein in fiscal deficits could create a more hostile environment for corporate America and its financial markets, with knock on effects on the region.